**CME Group Statement on CFTC MRAC CCP Risk and Governance Subcommittee Papers**

CME Group Inc. (“CME Group”)[[1]](#footnote-1) commends Acting Chairman Behnam for establishing the Market Risk Advisory Committee’s (“MRAC”) CCP Risk and Governance Subcommittee (“Subcommittee”). The Subcommittee provides a useful and effective forum for discussing areas of interest and providing recommendations to the broader MRAC, where appropriate, with a focus on the stability of the broader financial system.

DCOs are mandated to prioritize the safety of their markets and stability of the broader financial system. DCOs and more broadly, cleared U.S. derivatives markets, have a long history of successfully navigating market stress events. DCOs’ successes are, in part, due to a structure that incentivizes risk-takers to effectively manage their risks in coordination with the DCOs.

The Subcommittee’s two papers identify a number of governance and margining practices employed by DCOs today that support financial stability. CME Group supports the consensus recommendations of the Subcommittee noted in the papers.

*Recommendations Regarding CCP Margin Methodologies*

The Subcommittee’s agreed upon recommendations on margin methodologies highlight practices that support robust margin methodologies that allow a DCO to consider the unique risk profile of the products it clears. CME Group recognizes that recent industry conversations on margining have focused on procyclicality and that certain Subcommittee participants recommended more prescriptive procyclicality measures. While managing procyclicality is a key part of a DCO’s holistic risk management framework, these more prescriptive recommendations are unnecessary and risk having unintended consequences.

CME’s anti-procyclicality measures successfully mitigated the impact of the volatility in March and April 2020. To put the volatility into perspective, the largest net settlement variation paid, which is driven by changes in market price, was $18.1 billion in aggregate for CME’s clearing members. If customer initial margin was collected on a net basis for futures and options, the largest one-day change in total initial margin required at CME would have been $5.8 billion.[[2]](#footnote-2) The fact that the theoretical adjusted initial margin change[[3]](#footnote-3) was less than one-third of the size of the settlement variation paid shows that CME’s anti-procyclicality measures appropriately dampened the impact of the volatility on market participants’ initial margin obligations. Notwithstanding this, the largest actual one-day percentage change in total initial margin required at CME was 6.5%, which was also quite small relative to the volatility observed.

*Recommendations on CCP Governance*

The Subcommittee’s agreed upon recommendations on governance allow a DCO to continue to prioritize supporting the stability of the broader financial system, while recognizing the benefits of obtaining market participants’ risk-based views on matters that materially affect its risk profile.

1. Chicago Mercantile Exchange Inc. (“CME”) is a registered derivatives clearing organization (“DCO”). [↑](#footnote-ref-1)
2. This figure would be further reduced if the initial margin for cleared swaps was similarly adjusted. [↑](#footnote-ref-2)
3. Settlement variation is exchanged on a net basis, whereas DCOs collect customer initial margin on a gross basis. Adjusting the initial margin to reflect a net collection for futures and options provides a better, though still overly conservative, comparison of settlement variation and initial margin changes. However, even without this adjustment, during March and April 2020, CME’s actual largest one-day change in initial margin required was $10.3 billion, significantly less than the largest settlement variation paid. [↑](#footnote-ref-3)